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1 UNITED STATES BANKRUPTCY COURT

2 SOUTHERN DISTRICT OF NEW YORK

3 Case No. 18-23538-rdd

5 In the Matter of:

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7 SEARS HOLDINGS CORPORATION

8

9 Debtor.

11

12 United States Bankruptcy Court

13 300 Quarropas Street, Room 248

14 White Plains, NY 10601

15

16 February 7, 2019

17 9:27 AM

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21 B E F O R E ..

22 HON ROBERT D. DRAIN

23 U.S. BANKRUPTCY JUDGE

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25 ECRO: NAROTAM RAT

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1 HEARING re Evidentiary Hearing
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1 those unsecured claims.

2 But to answer your question directly, I think it's
3 fair, Your Honor. The credit bid is \$1.3 billion.

4 Everything else here, Your Honor, payment of claims that are
5 senior to unsecured creditors. Okay, those all have to be
6 paid regardless of whether or not we're here, we're in
7 winddown --

8 THE COURT: So just to cut through it, just to do
9 the math, you're saying that basically it's the total value
10 of the ESL deal is \$5.2 billion if you subtract a billion
11 three from that --

12 MR. SCHROCK: That's right.

13 THE COURT: -- there's \$3.9 billion of value
14 provided for the unencumbered assets.

15 MR. SCHROCK: That's right.

16 THE COURT: Has anyone placed a value on the
17 unencumbered assets anywhere close to \$3.9 billion?

18 MR. SCHROCK: No, Your Honor.

19 THE COURT: Okay.

20 MR. SCHROCK: Your Honor, we think it's
21 unquestionable that the benefits of a sale transaction
22 outweigh --

23 THE COURT: I'm sorry, can I interrupt you again?

24 MR. SCHROCK: No, please.

25 THE COURT: We went --

1 MR. SCHROCK: That's why I'm here.

2 THE COURT: You were going through the sale
3 process and the conduct of what people have referred to as
4 the auction here. One of the provisions of the sale
5 procedures order, all of which are waivable in the exercise
6 of fiduciary duties, is to require qualified bidders to
7 provide an allocation of what they're -- what assets they're
8 paying what for. It's uncontroverted that ESL did not do
9 that. I have traditionally viewed --

10 MR. SCHROCK: We waived it, Your Honor.

11 THE COURT: You waived that condition?

12 MR. SCHROCK: We did.

13 THE COURT: I have viewed that condition which
14 appears in sale orders generally as serving the purpose of
15 letting a seller, the Debtor, and its constituents value a
16 global proposal as against piecemeal proposals so that you
17 can slice and dice the auction to see whether some
18 combination of bids will equal a global bid or a reduced
19 global bid.

20 It also, though, does have the benefit of giving
21 you the Debtors' -- giving you the buyer's viewpoint of what
22 the -- when the buyer's a credit bidder -- of what the
23 unencumbered assets are. But maybe you can just tell me,
24 why did you waive it here?

25 MR. SCHROCK: Your Honor, at the end of the day,

1 we didn't have qualified bids for even sections of the
2 business and when we looked at this in total, and given that
3 the structure of the auction was going to be comparison of
4 the Debtors looking at a going concern versus a winddown,
5 while we did have some indications from ESL around
6 allocations and a view, we had to take -- and I think it's
7 fair to take -- we took a global view as to what
8 consideration was being provided to the company and we
9 understood that the entire business would have to be valued
10 as a whole.

11 But given that we didn't have any particular bids
12 or qualified bids for particular divisions, that wasn't as
13 much of a concern for the company.

14 THE COURT: Okay.

15 MR. SCHROCK: So the benefits of the sale
16 transaction really do significantly outweigh an orderly
17 winddown. And, Your Honor, I know there's been press around
18 the Debtors' severance obligations and what we were doing.
19 I do want to make clear for the record that under either
20 scenario, the Debtors were honoring severance obligations.
21 Those claims are administrative claims in these cases under
22 governing Second Circuit -- Second Circuit precedent.

23 We deliberately made sure that -- and it was one
24 of the primary purposes around having the winddown, to make
25 sure we could pay severance claims. But we are entitled to

1 THE COURT: Okay. Is that the line going out the
2 door there?

3 MS. LIEBERMAN: Hopefully not going out the door,
4 Your Honor.

5 THE COURT: Okay.

6 MS. LIEBERMAN: Good afternoon, Your Honor. Donna
7 Lieberman from Halperin Battaglia Benzija.

8 Your Honor, we represent Paul Ireland, the
9 administrator of the estate of James Garbe. The objection
10 that we filed as at Docket Number 1931, and it's a fairly
11 discrete objection, Your Honor. Although, as you can
12 imagine, it's one that's very important to our client.

13 Your Honor, the objector as well as the United
14 States of America holds a mortgage against one piece of
15 Sears real estate. That piece of real estate is identified
16 by the Debtors as 8975. It is listed on APA Schedule
17 1.1(p), the operating owned property. So it is presumably a
18 piece of real estate that the Debtors wish to convey to the
19 buyer.

20 The objection is very simple, Your Honor. The
21 mortgagees have a perfected first lien mortgage on this
22 property. The Court may recall that we actually filed a
23 limited objection to the DIP motions in connection with
24 this. My colleague, Mr. Halperin, argued that -- and both
25 of the -- both the final DIP orders have specific language

1 about the fact that this mortgage is not primed. Nobody is
2 pari passu with this mortgage lien.

3 Your Honor, the face amount of the mortgage note
4 is \$17.4 million. There is a provision in the mortgage note
5 and the related documents for a small amount of annual
6 interest as well as a provision for professional fees. I'm
7 sure the Court will not be surprised, as we state in our
8 objection, we do not consent to the sale of our collateral.
9 We want to know that if this -- if this mortgage is not
10 going to be paid at closing that the amount -- that the
11 amount of the mortgage, which we've calculated and we've
12 given the Debtor the precise number, that that amount is
13 segregated and reserved.

14 THE COURT: Okay.

15 MS. LIEBERMAN: And obviously the second piece is
16 if we cannot reach agreement with the Debtor about the value
17 of the collateral that either party can bring that issue to
18 this Court on motion.

19 THE COURT: Okay. So what is the Debtor's
20 proposed treatment of this -- through the sale? I mean,
21 obviously the Lender is entitled to adequate protection of
22 its interest in the property.

23 MR. SINGH: That's right, Your Honor. We have --

24 THE COURT: State your name, please.

25 MR. SINGH: Sorry. Sonny Singh, Weil, Gotshal on

1 behalf of the Debtors, Your Honor.

2 I think we've got a very narrow issue here. The
3 valuation reservation of rights, I think we have no problem
4 with that. If we have to come back later and deal with
5 that, we can. And our position simply is that under 363(f),
6 their liens get to attach to the proceeds of sale, excuse
7 me, which -- right here, as Your Honor knows, the
8 transaction is primarily assumptions of liabilities, which
9 are the proceeds that are coming in. There're no other
10 liens on this asset, so whatever those proceeds may be we'll
11 have to fight about another day with the objecting party,
12 but there's no basis to -- they haven't traced -- There's no
13 basis to say we set aside \$17.8 million of cash that's just
14 sitting aside in the company's --

15 THE COURT: Well, I think you need to give them an
16 adequate protection lien on assets then. I mean, I don't
17 know how -- they're actually protected otherwise.

18 MR. SINGH: I believe under the DIP order -- so,
19 Your Honor, as long as it's not against a particular asset,
20 right, and we don't have to --

21 THE COURT: But they have a super priority that --
22 where they're actually covered then. I think that's --

23 MR. SINGH: Right, which --

24 THE COURT: And then you can litigate what the
25 actual value was and what you're entitled to be paid.

1 MR. SINGH: And, Your Honor, I think we would be
2 fine with that because that doesn't require any segregation
3 of whatever funds they're asserting.

4 THE COURT: Okay.

5 MR. SINGH: We have no problem with that.

6 THE COURT: All right.

7 MS. LIEBERMAN: Your Honor, as you can imagine,
8 our only concern is that once the value is set that we know
9 that the money is there and available --

10 THE COURT: Right.

11 MS. LIEBERMAN: -- for our client.

12 THE COURT: Okay.

13 MS. LIEBERMAN: Because we have been hearing a
14 great deal about competing claims --

15 THE COURT: Right.

16 MS. LIEBERMAN: And whether this is an
17 administratively solvent estate.

18 THE COURT: All right. So I vaguely remember the
19 carveout in the DIP order. But, I mean, this is a first
20 lien on this property. It's worth what it's worth, and it
21 can't be paid just by a, you know, just saying we're going
22 to pay you someday. They need to have a -- indubitable
23 equivalent in something. So --

24 MR. SINGH: Yes, Your Honor.

25 THE COURT: -- you need to give them that to them.

1 MR. SINGH: I think we could probably add a short
2 paragraph to specifically give the adequate protection lien
3 that Your Honor outlined --

4 THE COURT: Okay.

5 MR. SINGH: -- relating to -- with everybody's
6 rights reserved as to the underlying claim.

7 THE COURT: As to the value and either party's
8 right to --

9 MR. SINGH: And value.

10 THE COURT: -- bring the -- bring that issue to
11 the Court.

12 MS. LIEBERMAN: Thank you, Your Honor.

13 MR. SINGH: Exactly. Thank you, Your Honor.

14 THE COURT: Okay.

15 MR. FONG: Good afternoon, Your Honor. Chris Fong
16 from Nixon Peabody on behalf of US Bank in its capacity as
17 the KCD indenture trustee.

18 THE COURT: Yes.

19 MR. FONG: We don't have any objection to the
20 sale. I just rise with respect to a discrete issue that we
21 have with the sale documents with which we would like to
22 reserve our rights.

23 I think, as you know, US Bank is the indenture
24 trustee under indenture with KCDIP, a non-debtor subsidiary.

25 THE COURT: Right.

1 C E R T I F I C A T I O N

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3 I, Sonya Ledanski Hyde, certified that the foregoing
4 transcript is a true and accurate record of the proceedings.

5

6 **Sonya**
7 **Ledanski Hyde**

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